Twin Disc, Incorporated
2009 Fourth Quarter Newsletter
June 30, 2009

To Our Shareholders:

The impact from the global recession that we began experiencing in the third quarter persisted in the fourth quarter and we expect these trends to continue through the first half of fiscal 2010. As a result of these trends, we recently announced initiatives to take $25,000,000 of costs out of the business for fiscal 2010. While difficult, these actions are necessary to manage our cost structure with the slowdown in volumes we are experiencing in certain markets.

Demand remained strong throughout the fiscal year from military customers for land-based transmissions and marine propulsion systems, ARFF, and Asian and Gulf Coast commercial marine customers. We expect demand from these customers to remain strong throughout fiscal 2010. Offsetting this demand was weakness in our oil and gas, mega yacht and industrial markets. We expect the mega yacht market to remain weak for some time as excess inventories of new boats work through the distribution channel. The industrial market, especially in Europe, has not stabilized, but we are cautiously optimistic that demand, especially domestically, will begin to pick up as Federal stimulus money works its way into the economy.

We anticipate sales of transmissions, power take-offs, and clutches used by oil and gas customers to pick up in the second half of fiscal 2010, as demand for oil begins to recover. Specifically, oil services customers, who have traditionally used our 8500 series transmissions for land-based pressure pumping applications, have expanded their service offerings and are now using our 8500 series transmission for offshore pressure pumping applications. In addition, we are making progress on the development and testing of our new 7500 series transmission that we announced last quarter. There has been a lot of interest from the marketplace and we anticipate the 7500 series transmission will begin shipping by the fiscal 2010 fourth quarter.

We are also making progress in the development and testing of the new marine-based products we announced last quarter – the joystick control system and hybrid-ready marine transmission. We anticipate the joystick control system will be available to marine customers by the second half of fiscal 2010 and the hybrid-ready transmission will be available sometime in fiscal 2011 as engine manufacturers and boat builders test the transmission.

Financial Results

In the fourth fiscal quarter, the Company continued to experience the impact of a softening in many of its key product markets. The mega yacht marine, oil and gas, and industrial markets continued to experience a significant fall off in both shipment and order volume, and this trend is likely to continue into the first half of fiscal 2010. As a result of previously announced actions, including the freezing of the Company's domestic defined-benefit pension plan, the Company's fourth-quarter results have a number of charges, accrual adjustments and other variances that had a material impact on both the quarterly and annual results. These are described in greater detail below. The Company continues to experience encouraging demand, as evidenced by both shipment and order volumes, in its commercial marine, land- and marine-based military and airport rescue fire fighting (ARFF) markets. In addition, the Pacific Rim continues to offer expanding opportunities for the Company as both sales and orders into the region continue to grow and are at historically high levels.

Sales for the fiscal 2009 fourth quarter were $72,056,000, compared to $90,349,000 for the fiscal 2008 fourth quarter. Sales for fiscal 2009 were $295,618,000, compared to $331,694,000 for fiscal 2008. The decline in sales for the fiscal 2009 fourth quarter was primarily due to lower sales of products to customers in the mega yacht, oil and gas, and industrial markets. This was partially offset by higher sales to customers in the commercial marine, land- and marine-based military and ARFF markets. While the North American and European markets experienced year-over-year sales declines, shipments to customers throughout the Pacific Rim continued to grow and were up versus last fiscal year. For the fiscal 2009 fourth quarter and fiscal year, foreign currency translations negatively impacted sales by $3,422,000 and $4,807,000, respectively.

Gross profit, as a percentage of fiscal 2009 fourth-quarter sales, was 26.7 percent, compared to 32.1 percent in the fiscal 2008 fourth quarter. Gross margin for the quarter continued to be unfavorably impacted by lower volumes, an unfavorable shift in product mix, primarily due to lower shipments of oil and gas transmissions, and an increase in warranty expenses. The net impact of the change in foreign currency exchange rates decreased gross profit by $1,074,000 in the fiscal 2009 fourth quarter. These were partially offset by an $805,000 reduction in pension expenses.

Fiscal 2009 gross profit, as a percentage of sales, was 27.6 percent, compared to 31.6 percent for fiscal 2008. Gross margin for the year continued to be unfavorably impacted by lower volumes, an unfavorable shift in product mix, primarily due to lower shipments of oil and gas transmissions, and an increase in warranty expenses. The net impact of the change in foreign currency exchange rates for fiscal 2009 decreased gross profit by $1,891,000. Also impacting fiscal 2009 gross profit margin was a $419,000 increase in pension expenses. These were partially offset by a $709,000 reduction in bonus compensation expense.

For the fiscal 2009 fourth quarter, marketing, engineering and administrative (ME&A) expenses, as a percentage of sales, were 17.5 percent, compared to 21.4 percent for the fiscal 2008 fourth quarter. ME&A expenses decreased $6,681,000 versus the same period last fiscal year. The table on the followng page summarizes significant changes in certain ME&A expenses for the quarter. The net remaining decrease in ME&A expenses of $1,455,000 primarily relates to global cost reduction initiatives implemented by the Company in the second half of fiscal 2009.

As a percentage of sales, ME&A expenses for fiscal 2009 were 20.5 percent, compared to 20.0 percent for fiscal 2008. ME&A expenses decreased $5,879,000 versus last fiscal year. The table on the following page summarizes significant changes in certain ME&A expenses for the fiscal year. The increase in IT expenses noted below primarily relates to the implementation of a global ERP system. The net remaining decrease in ME&A expenses of $1,055,000 primarily relates to global cost reduction initiatives implemented by the Company in the second half of fiscal 2009.

ME&A Quarter Expenses	**Three Months Ended**		
$millions - (Income)/Expense	**June 30, 2009**	**June 30, 2008**	**Increase/ (Decrease)**
Stock-Based Compensation	$ (1,106)	$1,636	$ (2,742)
Pension	(926)	65	(991)
Domestic Bonus	–	781	(781)
			$ (4,514)
Foreign Exhange Translation			(712)
			$ (5,226)
All other, net			(1,455)
			$ (6,681)

ME&A Year Expenses	**Fiscal Year Ended**		
$millions - (Income)/Expense	**June 30, 2009**	**June 30, 2008**	**Increase/ (Decrease)**
Domestic Bonus	$ –	$3,100	$ (3,100)
Stock-Based Compensation	(581)	1,879	(2,460)
Pension	(88)	261	(349)
Severance	1,308	–	1,308
Domestic/Corporate IT Expenses	5,740	4,419	1,321
			$ (3,280)
Foreign Exhange Translation			(1,544)
			$ (4,824)
All other, net			(1,055)
			$ (5,879)

For fiscal 2009, the Company recorded a $1,188,000 charge related to its previously announced restructuring plan, compared to a $373,000 restructuring accrual reversal for fiscal 2008. In addition, the benefit for domestic pension expense shown in the fourth fiscal quarter of 2009 versus fiscal 2008, for both ME&A expenses and cost of goods sold, was primarily due to a $1,700,000 curtailment gain recorded as a result of the freezing of the domestic defined-benefit pension plans, as previously announced.

The Company's tax rate for the 2009 fourth quarter was 46.9 percent, compared to 24.2 percent in the prior year's fourth quarter. The fiscal 2009 fourth-quarter rate was unfavorably impacted by a reduction in foreign tax credits and an increase in foreign permanent adjustments, while the fiscal 2008 fourth-quarter tax rate benefited from a reduction in the blended state tax rate resulting in a favorable adjustment to both deferred and the current year tax provisions. For 2009, the effective tax rate was 34.7 percent, compared to 30.9 percent last fiscal year. The primary cause for the increase is the one-time benefit recorded in fiscal 2008 related to adjusting the Italian deferred tax balance for the new reduced Italian tax rate, along with a similar one-time adjustment to domestic deferred items related to a reduction in the blended state tax rate.

Net earnings for the fiscal 2009 fourth quarter were $2,754,000, or $0.25 per diluted share, compared to $7,009,000, or $0.62 per diluted share, for the fiscal 2008 fourth quarter. For fiscal 2009, net earnings were $11,502,000, or $1.03 per diluted share, compared to $24,252,000, or $2.13 per diluted share last fiscal year.

Earnings before interest, taxes, depreciation and amortization (EBITDA)* was $8,488,000 for the fiscal 2009 fourth quarter, compared to $12,395,000 for the fiscal 2008 fourth quarter. For fiscal 2009, EBITDA was $30,020,000, compared to $46,075,000 for fiscal 2008.

Our balance sheet and overall liquidity remain strong and we are pleased to announce that we have renewed our $35,000,000 revolving credit facility and extended its maturity from October 2010 to May 2012. Working capital at June 30, 2009 was $103,669,000, compared to $106,107,000 at June 30, 2008 and $108,620,000 at March 27, 2009. We anticipate further working capital improvements throughout fiscal 2010 as we actively manage and control inventory, receivable and payable levels. At June 30, 2009, the Company had cash of $13,266,000, compared to $14,447,000 at June 30, 2008. Total debt at June 30, 2009 was $50,732,000, compared to $58,008,000 at March 27, 2009 and $49,957,000 at June 30, 2008. As of June 2009, the interest rate on the Company's revolving credit facility was 4.0 percent. Total debt-to-total capital was 32.2 percent at June 30, 2009.

Dividend

The Board of Directors declared a regular quarterly cash dividend of $0.07 per share payable on September 1, 2009, to shareholders of record on August 14, 2009.

Outlook

Our six-month backlog at June 30, 2009 was $60,583,000, compared to $120,774,000 at June 30, 2008, and $81,529,000 at March 27, 2009. The continued decline in our backlog has been disappointing and while we are hopeful we are near, or at the bottom of the cycle, at this point we cannot be certain. The backlog for the Company's commercial marine, military and ARFF transmission systems remains strong as we enter the new fiscal year, with backlogs at, or above, year ago levels. In the fourth fiscal quarter, the Company experienced an increase in order inquiries for its oil and gas products. We are cautiously optimistic that corporate initiatives and business opportunities will begin to increase our backlog during the second half of the fiscal year. Therefore, throughout the upcoming fiscal year, we will be working hard to manage costs and working capital, to develop new products and markets, and to offer our customers outstanding levels of service.

Michael E. Batten
Chairman and Chief Executive Officer

John H. Batten
President and Chief Operating Officer

Forward-Looking Statements

This press release may contain statements that are forward looking as defined by the Securities and Exchange Commission in its rules, regulations and releases. The Company intends that such forward-looking statements be subject to the safe harbors created thereby. All forward-looking statements are based on current expectations regarding important risk factors including those identified in the Company's most recent periodic report and other filings with the Securities and Exchange Commission. Accordingly, actual results may differ materially from those expressed in the forward-looking statements, and the making of such statements should not be regarded as a representation by the Company or any other person that the results expressed therein will be achieved.

****Non-GAAP Financial Disclosures (EBITDA)***

EBITDA represents net earnings before interest expense, income taxes, depreciation and amortization. EBITDA is not a calculation based upon generally accepted accounting principles (GAAP). The amounts included in the EBITDA calculation, however, are derived from amounts included in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows data. EBITDA should not be considered as an alternative to net earnings or operating profit as an indicator of the Company's operating performance, or as an alternative to operating cash flows as a measure of liquidity. Twin Disc has presented EBITDA because it regularly reviews this as a measure of the Company's ability to incur and service debt. In addition, EBITDA is used by many of our investors and lenders, and is presented as a convenience to them. However, the EBITDA measure presented may not always be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

Twin Disc, Incorporated
Condensed Consolidated Statements of Operations
(In thousands except per-share data; unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2008
Net sales	$72,056	$90,349	$295,618	$331,694
Cost of goods sold	52,789	61,304	214,175	226,826
Gross profit	19,267	29,045	81,443	104,868
Marketing, engineering and administrative expenses	12,627	19,308	60,470	66,349
Restructuring of operations	1,188	(373)	1,188	(373)
Interest expense	(650)	(713)	(2,487)	(3,038)
Other income (expense), net	784	(238)	747	(606)
Earnings before income taxes and minority interest	5,586	9,159	18,045	35,248
Income taxes	2,618	2,218	6,257	10,904
Minority interest	(214)	68	(286)	(92)
Net earnings	$ 2,754	$ 7,009	$ 11,502	$ 24,252
Earnings per share:				
Basic	$ 0.25	$ 0.63	$ 1.04	$ 2.15
Diluted	$ 0.25	$ 0.62	$ 1.03	$ 2.13
Average shares outstanding:				
Basic	11,006	11,161	11,097	11,279
Diluted	11,117	11,306	11,194	11,412
Dividends per share	$ 0.070	$ 0.070	$ 0.280	$ 0.265

Comprehensive (Loss) Income
(In thousands; unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2008
Net earnings	$ 2,754	$ 7,009	$11,502	$24,252
Other comprehensive income (loss)				
Foreign currency translation adjustment	9,170	2,516	(10,473)	14,400
Benefit plan adjustment, net	(20,104)	(8,155)	(18,692)	(7,461)
Comprehensive (loss) income	$(8,180)	$1,370	$(17,663)	$31,191

Reconciliation of Consolidated Net Earnings to EBITDA
(In thousands; unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2008
Net earnings	$ 2,754	$ 7,009	$11,502	$24,252
Income taxes	2,618	2,218	6,257	10,904
Interest expense	650	713	2,487	3,038
Depreciation and amortization	2,466	2,455	9,774	7,881
Earnings before interest, taxes, depreciation and amortization	$ 8,488	$12,395	$30,020	$46,075

Twin Disc, Incorporated
Condensed Consolidated Statements of Cash Flows
(In thousands, unaudited)

	Fiscal Year Ended	
	June 30, 2009	**June 30, 2008**
Cash Flows from Operating Activities:		
Net earnings	$11,502	$ 24,252
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	9,774	7,881
Loss on sale of plant assets	17	468
Minority interest	143	(72)
Restructuring of operations	1,188	(373)
Stock compensation expense	(2,481)	1,301
Provision for deferred income taxes	405	2,243
Changes in operating assets and liabilities:		
Trade accounts receivable, net	9,568	1,795
Inventories, net	(1,282)	(12,949)
Other assets	2,311	(1,127)
Accounts payable	(10,890)	5,491
Accrued liabilities	(6,104)	(4,870)
Accrued/prepaid retirement benefits	(1,578)	(4,332)
Net cash provided by operating activities	12,573	19,708
Cash Flows from Investing Activities:		
Acquisitions of fixed assets	(8,895)	(14,999)
Proceeds from sale of fixed assets	20	256
Net cash used by investing activities	(8,875)	(14,743)
Cash Flows from Financing Activities:		
(Decrease) increase in notes payable, net	(1,510)	226
Proceeds from long-term debt	2,787	5,055
Proceeds from exercise of stock options	110	246
Purchase of treasury stock	(1,813)	(15,644)
Dividends paid	(3,105)	(3,000)
Other, net	(428)	691
Net cash used by financing activities	(3,959)	(12,426)
Effect of exchange rate changes on cash	(920)	2,400
Net change in cash	(1,181)	(5,061)
Cash Balance:		
Beginning of period	14,447	19,508
End of period	$ 13,266	$ 14,447

Twin Disc, Incorporated
Condensed Consolidated Balance Sheets
(In thousands, unaudited)

Assets	June 30, 2009	June 30, 2008
Current assets:		
Cash	$ 13,266	$ 14,447
Trade accounts receivable, net	53,367	67,611
Inventories, net	92,331	97,691
Deferred income taxes	6,280	6,297
Other	8,677	9,649
Total current assets	173,921	195,695
Property, plant and equipment, net	65,799	67,855
Goodwill, net	17,509	18,479
Deferred income taxes	14,039	5,733
Intangible assets, net	7,855	9,589
Other assets	6,442	7,277
	$285,565	$304,628
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current maturities on long-term debt	$ 4,421	$ 1,730
Accounts payable	24,864	37,919
Accrued liabilities	40,967	49,939
Total current liabilities	70,252	89,588
Long-term debt	46,348	48,227
Accrued retirement benefits	60,241	34,325
Other long-term liabilities	899	2,163
	177,740	174,303
Minority interest	837	679
Shareholders' equity:		
Common stock	13,205	14,693
Retained earnings	150,758	142,361
Accumulated other comprehensive (loss) income	(26,719)	2,446
	137,244	159,500
Less treasury stock, at cost	30,256	29,854
Total shareholders' equity	106,988	129,646
	$285,565	$304,628

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